

LC No. _____
HB/SB _____¹

**REPORT AND RECOMMENDATION OF THE
STATE ADMINISTRATION AND VETERANS' AFFAIRS INTERIM COMMITTEE (SAVA)
TO THE 2013 LEGISLATURE AS OF NOVEMBER 2012²**

Proposal No. 11

Proposing Entity: Governor Schweitzer

Short Title: Improve actuarial funding for PERS-DB

Retirement system affected

Public Employees' Retirement System (PERS-DB)

Proposal summary

According to the PERS FY 2012 actuarial valuation, the PERS-DB plan unfunded liabilities do not amortize. In order to amortize the unfunded liabilities in 30 years (which has been the accepted standard for an actuarially sound pension plan), an additional 6.53% of covered payroll (or about \$70.6 million) must be contributed to the plan annually.

This proposal:

- increases employee contributions for employees hired prior to 7/1/2011 by 1% so that all employees are contributing 7.9%;
- increases employer contributions by 1% to 7.9%;
- provides annual flat dollar cash infusions from state coal severance taxes; and
- requires local government employers to contribute an "actuarially determined" amount equivalent to that employer's share of the remaining Annual Required Contribution (ARC).

¹ This report summarizes SAVA's recommendation to the Legislature as of November 2012. The report is not a summary of a bill, but of a retirement proposal as presented to SAVA during the interim. The specifics of the proposal summarized may have changed during the subsequent drafting and legislative processes.

² Report issued pursuant to 5-5-228, MCA.

Fiscal implications

According to the PER Board's actuarial analysis of this proposal, the amortization schedule for the state share of the plan's unfunded liabilities will be reduced from "does not amortize" to a 30-year amortization schedule by 2027, while the local share of the plan's unfunded liabilities decreases from "does not amortize" to a 30-year amortization by FY 2025.³

Effect on other Montana retirement systems

None.

Soundness as matter of retirement policy

The proposal relates to the following policy principle adopted by SAVA on January 27, 2012:

- Principle II - pension funding should be a contemporary obligation.

The proposal also relates to the requirement in Montana's Constitution that the public retirement systems be funded on an "actuarially sound basis"⁴ and the statutory requirement that unfunded liabilities be amortized in no more than 30 years⁵, which has been one of the actuarial standards for determining whether a plan is actuarially sound.

The longer the legislature postpones funding the system's benefit obligations, the less contemporary the funding obligations become.

Comparison with other states

Many states are in the process of revising their public pension plans due to the national financial crisis that created record investment losses for pension plans throughout the country. Many states are seeking ways to decrease their future liabilities and increase contributions to keep their retirement systems solvent.

Legal implications⁶

The 1% increase in contributions required from current employees may raise contract impairment issues.

³ The Legislative Fiscal Division has written a more detailed fiscal analysis for the Legislative Finance Committee, which maintains a website with links to it's reports at www.leg.mt.gov, selection "Fiscal" from the top menu and navigate to the Legislative Finance Committee meeting for November 13, 2012.

⁴ Article VIII, Section 15, Montana Constitution.

⁵ Section 19-2-409, MCA.

⁶ David Niss, Legal Memorandums dated May 21, 2012, January 5, 2012, August 14, 2009, August 28, 2009 (Addendum), and February 27, 1998, Montana Legislative Services Division, (406) 444-3064, or visit www.leg.mt.us and contact staff for the State Administration and Veterans' Affairs Interim Committee.

Testimony received

The proposal was presented by Governor Schweitzer's budget director, Mr. Dan Villa, and was supported by the Public Employees' Retirement (PER) Board and the Montana Public Employees' Association. However, the PER Board expressed concern about the contribution increase for current employees raising a contract impairment issue and will be forwarding its own funding bill that does not include this increase.

There were no opponents to the proposal.⁷

Committee discussion

The committee requested that a preamble be written to explain the rationale for the proposal and voted 7 to 1 (Sen. Lewis voting no) to continue to consider the bill as a committee bill and to ask the Legislative Finance Committee for its comments and recommendations.⁸

Recommendation

Will be considered by SAVA November 16, 2012.

⁷ State Administration and Veterans' Affairs Interim Committee meeting on September 11, 2012. Audio/video and summary minutes available from the Montana Legislative Branch website at <http://www.leg.mt.gov/>, navigate to interim committees, State Administration and Veterans' Affairs Interim Committee, 2011-12.

⁸ Ibid.